Don?t lose out

12 July 2016

Property owners should ensure that they claim capital allowances before converting commercial buildings into homes, warns Mark Tighe

---

Readers of *Property Journal* won?t need me to remind them that the lack of new homes being constructed remains the dominant narrative of the UK property market.

One current initiative, introduced under the coalition government, is to make it easier for unused or underused office buildings to be converted into homes, so-called office-to-resi conversions. There?s been a fair bit of take-up, too: data released by the Department of Communities and Local Government (DCLG) towards the end of 2015 showed that, between April 2014 and June 2015 almost 4,000 office-to-resi conversions were given the go-ahead.

This is great news, as the UK desperately needs more houses.

However, this feature isn?t about solving the housing crisis ? it?s about tax relief for UK commercial property owners.

The ?72m figure could be the tip of the iceberg

While we naturally welcome more homes, what is a lot less welcome is the fact that, out of the 4,000 conversions the DCLG identifies, we estimate that roughly ?72m of the unused capital allowances tax relief that is available to commercial property owners will be lost unnecessarily.

Capital allowances, if you?re not familiar with them, are a form of relief against corporation tax available to people or businesses that own commercial property.

The relief is available on what?s known as the ?intrinsic fabrication? of a building, such as lighting and heating systems, pipework, water sprinklers and electric cabling, lift shafts and ventilation. Essentially, these items are eligible for tax relief because a business could not operate without them.

The problem ? and it?s a huge one ? is that 90% of commercial property owners know nothing at all about the process of identifying capital allowances tax relief on these items. More worryingly still, neither do their accountants: it?s a specialist area of tax that most accountants, being generalists, simply do not have the skillset for.

This is where we arrive at our ?72m figure for commercial properties that are being converted into homes. The reason for this is that, since 2014, any unclaimed capital allowances must now be identified before a commercial property is sold or otherwise changes its status. If not, they will be lost forever.

Identifying capital allowances

How do specialists identify unused capital allowances? It starts with establishing the capital allowances history of the property.

Any prior claims made by the accountant must be examined and if it is felt that unclaimed capital allowances exist then an in-depth forensic survey ? or audit ? of the entire site is required.

This process will essentially identify items that fall under the definitions of Plant and Machinery as laid down in the Capital Allowances Act 2001, and which therefore qualify for capital allowances.

Using cost models and data sources accepted by HMRC, a report can then be produced detailing the reasons for making a capital allowances claim on items in the property, along with a breakdown of the proposed claim amount.

The report is sent to the client and their accountant along with guidance on how to submit the claim toHMRC .

On the assumption that 90% of the owners of 4,000 commercial properties that can be converted into residential homes will not put in a capital allowances claim ? out of sheer lack of awareness ? tens of millions of pounds will be lost, with no way to claw that money back.

The added danger is that the ?72m figure could be the tip of the iceberg given the announcement by Housing and Planning Minister Brandon Lewis that the permitted development rights enabling conversions are to be made permanent in an effort to boost housing supply.

In the future, if this initiative continues, hundreds of millions in unused tax relief could be lost through office-to-resi conversions alone.

To summarise, then, anyone considering converting a commercial property into a residential one or selling it on to a residential developer needs to make a capital allowances claim before or at the point of sale or before work begins.

If they don?t, they will instantly lose tens or potentially hundreds of thousands of pounds of tax relief.

Mark Tighe is Managing Director, Catax Solutions

Further information

Related competencies include Capital taxation